Finders Keepers, Losers Weepers? The Distributional Effects of Privatization in IMF Programs

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Overview

Research question

IMF programs and income inequality

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- What is the impact of privatization conditionalities on income inequality in a borrowing country?

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- Previous studies (Pastor 1987, Garuda 2000, Vreeland 2000, Lang 2016, Nunn and White 2017, Rickard and Caraway 2019) that examine the impact of IMF programs on inequality did not focus on the causal mechanisms linking the relation between inequality and IMF programs.

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- What is the impact of privatization conditionalities on income inequality in a borrowing country?
- Previous studies (Pastor 1987, Garuda 2000, Vreeland 2000, Lang 2016, Nunn and White 2017, Rickard and Caraway 2019) that examine the impact of IMF programs on inequality did not focus on the causal mechanisms linking the relation between inequality and IMF programs.
- This research aims to make a novel contribution to this literature by introducing a disaggregated approach using mixed methods, including case studies and statistical analysis.

Overview

IMF programs and income inequality

We expect privatization to put downward pressure not only in the privatized firms and sectors, but also in non-privatized public sector firms, and firms and sectors that were already private through weakening of national labor power. We therefore expect privatization to cause a decline in economy wide/national labor share, and we expect these effects to persist in the long run.

Overview

Working hypotheses

- *H1: Privatization reduces national labor share through weakening labor's bargaining power over wages.*

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- *H2: Privatization reduces the national labor share through job shedding (increased unemployment)*

Overview

Privatization of SOEs in Pakistan & Turkey

- Many of the SOEs were privatized during the 1990s and 2000s.
- Between 1991–1998, employment in public sector corporations was halved (Sayeed)
- Many of the fired workers were re-hired by the same privatized firm.
- In the LR, privatization served to weaken trade unions at the firm and national levels.
- Greater share of revenues were paid to shareholders as dividends, less to workers as wages. Workers' reduced bargaining power led to reduced income.
- Privatization program was gradual until the 2000s. With the election of AKP in 2002, the largest SOEs were privatized in the 2000s.
- Privatization has led most workers to precarious jobs with low wages, insecure conditions, no SSBs, and limited access to union activity. (Tansel 1998)
- In the LR, employment rate decreased by 65% (Cengiz 2018)
- 22,000 individuals became unemployed as a direct result of privatizations that occurred between 1986–2006 (ISMMMO, 2010)

Overview

Empirical results

Table 1: Conditionality: Two-way Fixed Effect 2SLS Regressions for Labor Share

Dependent variable: % change in labor share of income (second-stage results)	(1)	(2)	(3)	(4)
% Change in Share of Workers in High Capacity Industries	-7.916**	-5.852*	-5.725*	-5.070*
	(3.754)	(3.496)	(3.420)	(2.867)
IMF Conditions on Trade Liberalization (t-3)		0.006	0.011	0.005
		(0.016)	(0.013)	(0.012)
IMF Conditions on Trade Liberalization (t-5)	0.034**			
	(0.017)			
IMF Conditions on Labor Market (t-3)		0.006**	0.006	0.007*
		(0.003)	(0.004)	(0.004)
IMF Dummy		-0.089*	-0.051	-0.042
		(0.053)	(0.046)	(0.043)
GINI Index			0.001	-0.018
			(0.020)	(0.023)
% GDP Growth			0.611*	0.531*
			(0.321)	(0.271)
KOF Globalization Index				0.015
				(0.012)
Constant	-0.923***	-0.466*	-0.331	-0.281
	(0.294)	(0.260)	(0.794)	(0.694)
N	424	424	420	420

Empirical results

Dependent variable: % change in share of workers in high capacity industries (first-stage results)	(1)	(2)	(3)	(4)
IMF Conditions on Trade Liberalization (t-3)		0.004**	0.003*	0.002
		(0.002)	(0.002)	(0.002)
IMF Conditions on Trade Liberalization (t-5)	0.005**			
	(0.002)			
IMF Conditions on Privatization (t-3)		-0.002	-0.002*	-0.003**
		(0.001)	(0.001)	(0.001)
IMF Conditions on Privatization (t-5)	-0.001			
	(0.001)			
IMF Conditions on Labor Market (t-3)		0.002	0.002	0.002
		(0.002)	(0.001)	(0.001)
IMF Dummy		-0.016**	-0.008	-0.007
		(0.007)	(0.007)	(0.007)
GINI Index			0.004	0.001
			(0.003)	(0.004)
% GDP Growth			0.088***	0.084***
			(0.026)	(0.026)
KOF Globalization Index				0.003
				(0.002)
Constant	-0.120***	-0.084***	-0.203	-0.221*
	(0.029)	((0.020)	(0.122)	(0.118)
N	424	424	420	420
R^2	0.121	0.129	0.145	0.155

Empirical results

Table 2: Actualization: Two-way Fixed Effect 2SLS Regressions for Labor Share

Dependent variable: % change in labor share of income (second-stage results)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
% Change in Share of Workers in High Capacity Industries	-4.850**	-4.968**	-4.369**	-4.902*	-4.733**	-5.491*	-3.541**	-3.767**	-4.275**
	(2.158)	(2.191)	(2.017)	(2.867)	(2.366)	(2.945)	(1.493)	(1.715)	(2.178)
IMF Dummy		-0.026	-0.001	0.003	0.019	0.005	0.008	-0.004	-0.041
		(0.054)	(0.048)	(0.053)	(0.053)	(0.060)	(0.050)	(0.047)	(0.070)
% GDP Growth			0.499**	0.544**	0.502**	0.533**	0.383**	0.433**	0.413**
			(0.223)	(0.260)	(0.229)	(0.269)	(0.188)	(0.190)	(0.195)
GINI Index				0.022	0.016	0.019	0.003	0.004	0.006
				(0.030)	(0.026)	(0.031)	(0.017)	(0.018)	(0.023)
Chinn-Ito index					0.041	0.046	0.031	0.026	0.036
					(0.038)	(0.043)	(0.031)	(0.043)	(0.041)
% Change in Current Account Balance						-0.005	-0.002	0.000	0.000
						(0.005)	(0.003)	(0.004)	(0.005)
% Growth of Total Factor Productivity							0.002	0.000	0.002
							(0.005)	(0.007)	(0.007)
Inflation								0.000	0.000
								(0.000)	(0.000)
Constant	-0.052	-0.046	-0.087	-0.912	-0.694	-0.790	-0.432	-0.444	-0.542
	(0.237)	(0.247)	(0.257)	(1.149)	(0.986)	(1.169)	(0.706)	(0.736)	(0.918)
N	186	186	185	185	183	183	178	168	158
Dependent variable: % change in share of workers in high capacity industries (first-stage results)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SOE privatization deals in millions US dollars normalized by GDP (t)	3.0e+05***	2.7e+05***	2.7e+05**	2.5e+05**	2.4e+05**	2.2e+05**	2.9e+05***	3.1e+05***	
	(9.6e+04)	(9.4e+04)	(9.9e+04)	(1.1e+05)	(9.9e+04)	(1.0e+05)	(8.8e+04)	(8.6e+04)	
SOE privatization deals in millions US dollars normalized by GDP (t-1)									2.6e+05
									(1.8e+05)
IMF Dummy		-0.018***	-0.016**	-0.014*	-0.013*	-0.013*	-0.015**	-0.016**	-0.020**
		((0.006)	(0.007)	(0.008)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
% GDP Growth			0.059*	0.061*	0.056*	0.055*	0.043	0.043	0.039
			(0.033)	(0.032)	(0.029)	(0.028)	(0.034)	(0.035)	(0.035)
GINI Index				0.003	0.002	0.002	0.001	0.001	0.000
				(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)
Chinn-Ito index					0.006	0.006	0.006	0.006	0.008
					(0.007)	(0.007)	(0.006)	(0.007)	(0.008)
% Change in Current Account Balance						-0.000	-0.000	-0.000	-0.000
						(0.001)	(0.001)	(0.001)	(0.001)
% Growth of Total Factor Productivity							0.001	0.001	0.001
							(0.001)	(0.001)	(0.001)
Inflation								0.000	0.000
								(0.000)	(0.000)
Constant	-0.052**	-0.044*	-0.038	-0.146	-0.118	-0.119	-0.097	-0.095	-0.078
	(0.024)	(0.024)	(0.028)	(0.097)	(0.120)	(0.123)	(0.114)	(0.122)	(0.142)
N	186	186	185	185	183	183	178	168	158
R^2	0.224	0.247	0.252	0.257	0.286	0.287	0.327	0.328	0.318

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- disaggregating data further to look at sectoral differences

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- disaggregating data further to look at sectoral differences
- test the following alternative hypotheses:

1. Labor share could decline due to increasing capital intensity of production unrelated to privatization (Harrison 2002; Acemoglu 2003; Bentolila and Saint-Paul 2003).

2. Weakening of the organizational strength of unions and the decline of employment-protection policies for reasons unrelated to privatization (Blanchard and Giavazzi 2003; Bassanini and Duval 2006).

3. Globalization/financial liberalization (Harrison 2002; Lee and Jayadev 2005; Guscina 2006; Daudey and García-Penalosa 2007; Jayadev 2007)

4. Fall in manufacturing share of value added for reasons unrelated to privatization could lead to fall in labor share.

5. Trade liberalization and deindustrialization/import competition for previously protected industries can lead to lower skill/lower productivity services jobs + weaker unions + unemployment.

6. Job loss can also occur in SOEs that are not privatized due to fiscal austerity/debt crisis.

Thank you for your attention.
We look forward to your questions and comments!

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